

# DEBT

## Do the right thing

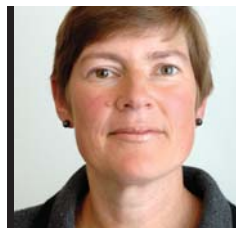
Advisers' and creditors' experience  
of best practice in debt collection

# Foreword



It is all too easy to focus on bad practice in debt collection. It is, however, equally important to identify and promote examples of good practice. This report demonstrates that improving debt collection practices brings clear advantages for creditors and debt collection agencies as well as debtors. I hope that it will stimulate debate and improvement for the benefit of everyone concerned in the process of debt collection.

**Steve Johnson**, Chief Executive, AdviceUK



This clear and practical report demonstrates that advisers report some excellent practice by creditors and debt collectors and some less good practice. We are keen to continue working with creditors and advisers to ensure that the good practice is seen across the board, so that individuals in debt can pay back what they owe in a way that suits their circumstances.

**Joanna Elson**, Chief Executive, Money Advice Trust



Citizens Advice wants all creditors to do the right thing and help people overcome their debt problems. This report is the first step towards making this a reality. We've set out how we believe best practice can be achieved, and we look forward to working with all types of creditors to improve the way all debts are collected.

**David Harker**, Chief Executive, Citizens Advice



The IMA welcomes this report and the dialogue between creditors and advisers that it has already generated and will continue. *Do the right thing* is an important report that seeks to identify and share good practice where it exists and to use this as a benchmark to improve debt collection practices across the piece, helping those people in debt to pay back what is owed in a way that is both fair and appropriate.

**Caroline Siarkiewicz**, Chief Executive, the Institute of Money Advisers

# Introduction

The free-to-client debt advice sector believes that all creditors should do the right thing and help people deal with their debts in a way that suits their circumstances. But some debt collection practices can have dire consequences for people in debt: homes, possessions and essential services can be lost if they are persuaded to make debt repayments before paying for every day essentials; relationships can breakdown; and the health and well-being of individuals and their families can suffer.

However, at present there is no definitive statement of best practice for debt collection that creditors can follow, and regulation only sets out what creditors must not do. We want this to change, and this report aims to start a conversation with creditors about how debt collection practices can be improved.

This report uses the experience of advisers from across the free-to-client debt advice sector – including members of AdviceUK, the CAB service, members of the Institute of Money Advisers and staff at National Debtline – and interviews with creditors to set out the advisers' view of best practice, and the five steps creditors should take to achieve it:

## **Step 1**

**Set the right organisational culture.**

## **Step 2**

**Achieve the right motivation for debt collection staff.**

## **Step 3**

**Develop clear and encouraging communications.**

## **Step 4**

**Provide information and support.**

## **Step 5**

**Be willing and able to maintain and develop best practice.**

Our research includes practices from a range of creditors, including local authorities, housing associations, debt collectors, water companies, home credit providers, debt purchase companies and credit card providers. We believe that if they can achieve best practice, all creditors can.

If you'd like to be part of this conversation please let us know. Our contact details are at the back of this report and we look forward to hearing from you.

# Best practice – what's in it for creditors?



Advice agencies see the impact of debt collection practices every day. Advisers know what helps people in debt and what makes matters worse: such as the difference between creditors who set rigid minimum repayment levels and those who accept offers based on a reasonable assessment of expenditure. But it is not just advisers and people in debt who benefit – creditors will benefit too. People in debt will be more likely to engage, and stay engaged, with their creditors and sustainable repayments will mean creditors spend less time and resources chasing payments.



**Stability, ability and willingness: we'd much rather someone paid what they can on a regular basis than have to chase people for payments they can't afford. When we started taking this approach to collections in the Somers Town area of Portsmouth we saw collection rates go up by 2,000 per cent."**  
FC Collections

# Advisers' experience of best practice

Advice agencies have a difficult job: the recession has increased demand for advice and the people seeking advice often have very complex problems, which require a great deal of time and effort to resolve. When advisers come across creditors who do the right thing, they really appreciate it: stress on clients is reduced, cases are resolved more quickly, and limited resources can be focused on people in debt who simply cannot deal with matters on their own. Advisers told us that best practice includes:

- Recognising and dealing with vulnerability.
- Signposting or referring people for help.
- Stopping collections activities for at least 30 days after a person has sought advice, and extending this if a person needs it.
- Treating people who carry out their own repayment negotiations in the same way as those represented by an advice agency.
- Having specialist teams on hand to deal with advisers' correspondence and telephone enquiries.
- Responding to offers and enquiries in timely fashion.

- Answering queries and communicating in a way that is clear and easy to understand.
- Accepting offers of repayment based on reasonable expenditure.
- Keeping the cost of debt down by freezing charges and interest.
- Providing standing order details or free-to-use payment cards.
- Stopping enforcement action if an alternative solution can be found.
- Creditors matching a person's debt repayment and writing off debt.
- Carrying out reviews on an annual basis.
- Giving as much information as possible to organisations that act on their behalf.

These practices are already being carried out by some or all of the creditors who contributed to this report. These creditors are listed in Appendix 1 and are referred to throughout this report.

We will now set out the practical steps we believe creditors should take in order to achieve best practice.



**By working with the CAB service and developing our range of schemes for customers in financial difficulty, including the Assist Tariff, we have actually seen the recovery rates from this group go up and customers who have previously avoided contact are now interacting with us well.<sup>1</sup>**

Wessex Water

1. For details of Wessex Water's schemes, including the Assist Tariff, see the website: [wessexwater.co.uk](http://wessexwater.co.uk)

# Step 1

## Setting the right organisational culture



**Our fundamental approach accepts the fact that some people can't pay in full. Instead we aim to set up sustainable payments through a medium that cost us and the customers as little as possible to make."**

**Cabot Financial**



**For us it's all about thinking of the person behind the figures – treat them like a human being and they'll want to pay."**

**Sovereign Housing Association**



**The right organisational culture thinks about the person behind the figures. ↓**

Debt collection practices should focus on the circumstances of those people who find themselves in debt – who are still residents, taxpayers, customers and potential future customers. Everyone working for a creditor should be committed to doing the right thing – including the most senior members of staff. They should value sustainability and treat people in debt as individuals.

Inflexible debt collection practices that focus on the needs of the majority – those with short term problems – will have a detrimental impact on those with long term difficulties and complex personal circumstances. Instead creditors should concentrate on the person in debt and adopt a strategy that takes account of: →

### **The person's ability to pay**

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Creditors should not set minimum repayment levels or demand that debts are repaid within a set time period. Instead we believe all creditors should use the same objective method of working out how much a person can pay. This already exists in the common financial statement (CFS), which is sponsored by the Money Advice Trust, the British Bankers' Association and the Finance & Leasing Association.

The CFS uses an agreed budget sheet to gather information about a person's income, assets, liabilities and expenditure. The person's discretionary expenditure is then compared against objectively agreed guideline figures – known as 'trigger figures'. These trigger figures are determined using government research on average household expenditure for people in the lowest 20 per cent of income brackets. As such, they reflect modest expenditure for people living on a limited budget. If a person's expenditure falls within these trigger figures, or justifiably exceeds them and an explanation is provided on the statement, creditors should not ask them to pay more. Offers made using the CFS might be small, but they will be sustainable. Creditors will have to value sustainability, and set up systems to accommodate long term repayment plans.

FC Collections, a door-step collection agency based in Portsmouth, took a long term approach to collecting water debts in the Somers Town area of Portsmouth, a historically hard to reach community. In response they found more people wanted to work with them and collections rates increased by over 2,000 per cent. ↓



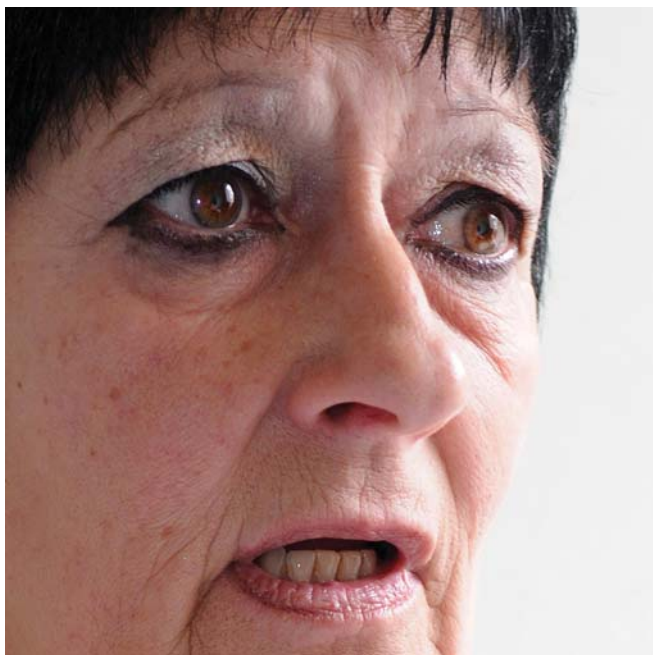
# Step 1

## The person's circumstances

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The people who owe money will have a range of different personal circumstances. Some will need a debt advice agency to represent them in repayment negotiations. Others – including some of those signposted or referred for advice – will prefer to negotiate with their creditors themselves. Creditors should treat both groups of customers in the same way, as Capital One, Equidebt, M&S Money and Santander Cards UK already do.

Other people in debt will have circumstances such as mental or physical health problems that affect their ability to manage money and repay what they owe. Creditors should put processes and people in place to identify and help these people in a way that meets their needs. For example, Allied International Credit uses key words and phrases to identify people who may have mental health problems. Once identified, these people are taken out of mainstream collections and dealt with by a specialist member of staff. →



## The person's whole situation

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Unmanageable personal debt might be just one of the problems someone in debt is dealing with, or a symptom of several other problems – such as relationship breakdown, redundancy or bereavement. Creditors should approach every person positively, give them time to address more pressing problems or work with an adviser. In the meantime, creditors should stop sending letters and making calls demanding payment for at least 30 days, and offer more time if the person needs it.

Creditors should also appreciate that some people who can't pay might have avoided talking to their creditors. This does not necessarily mean that they won't pay. When these people do establish contact, their creditors should take a pragmatic approach. Recovery action should be suspended or withdrawn, and creditors should seek to set up affordable repayment plans instead.

Sovereign Housing Association takes this approach. Before court action is commenced, residents are asked to attend a pre-court panel. The panel includes debt and welfare benefits advisers. The person in debt receives a full benefit check, budgeting and debt advice. Two thirds of the people who attend these panels repay their debt without the need for court action. This not only helps people repay what they owe, it also reduces costs for Sovereign Housing Association. →

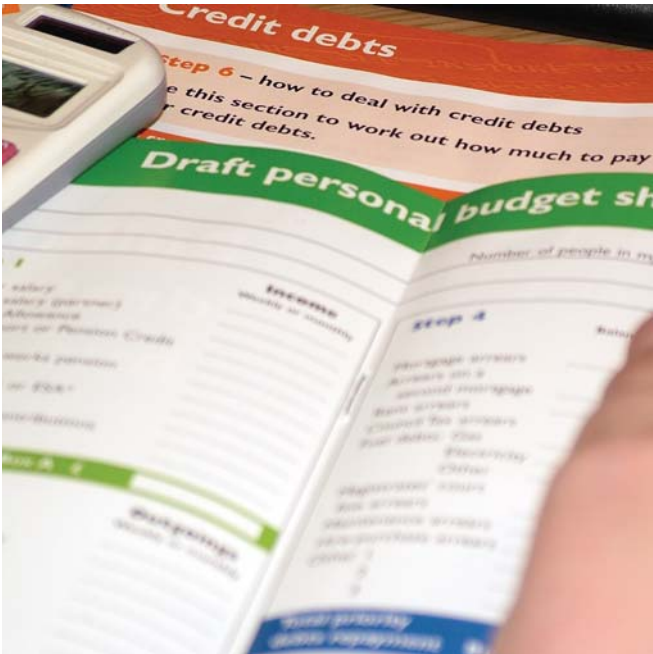


### The needs and powers of other creditors

Some creditors – such as local authority council tax departments, landlords, mortgage/secured lenders, the Child Support Agency, fuel companies and magistrate courts – have significantly greater powers than others, such as eviction, repossession, disconnection and imprisonment. But all too often the creditor who shouts the loudest is paid first – such as the unsecured creditor that calls almost every day demanding payment in full.

It only takes one creditor to push too hard for a repayment plan to completely fail. Instead, creditors need to co-operate so the person in debt can sustain repayment and protect their home, liberty and essential goods and services.

This will involve identifying other creditors, which can be hard. Financial statements and signposting or referring people for advice will help. Creditors could also emphasise the importance of paying off essential arrears first, and offer help and forbearance in their communications while these payments are being made. If the person does have more pressing debts, these should be repaid first and other creditors should be willing to accept token payments or payment holidays in the meantime. ●



COMMON FINANCIAL STATEMENT SUMMARY		bba The voice of banking & financial services	
All amounts are monthly 8 January 2010		Agency Address An Advice Any Road Any Town Any Where	
Client Address	Mr A N Other 1234 Any Street Any Town Any Where	Caseworker Licence No	A D Viser 123456
Case ref	123456	dependant children un dependant children ag	
Number in household	3	Priority debts	
Number of vehicles in household	1	88 Rent	
Monthly Income		89 Mortgage	
4a Monthly Total Salary / Wages	1,500.00	90 Other secured loans	
9a Monthly Total Other Income		91 Magistrates' court fin	
21a Monthly Total Benefits		92 Council Tax	
25a Monthly Total Pensions		93 Maintenance or child	
Monthly Total Income	1,500.00	94 Gas	
Please confirm you have discussed the use of any assets to make lump sum payments		95 Electricity	
<input checked="" type="checkbox"/> Yes		96 Hire purchase or condit	
Monthly Expenditure		97 Other	
32 Rent	800.00	98 Other	
33 Ground rent and service charges			

“For us it is all about excellence and doing the right thing to serve our customers for the life of the accounts, even after we’ve sold it or instructed another firm to collect it.”  
Capital One

## Step 2

# Achieving the right motivation for debt collection staff

An adviser from Warwickshire told us that when they write to Equidebt, their clients' accounts are passed to a specialist team of well trained, knowledgeable staff that can set up long term repayment plans and answer any questions they might have. The adviser says that this reduces the amount of time they spend on each case and ultimately means they can help more people.

Equidebt told us:



Our staff are encouraged to set up payment plans that have 'stickability' – their bonuses are linked to payments made in month one, two and three. So if the person keeps paying they get more money. Our third party team are on hand to help advisers or anyone who can only offer low monthly payments towards their debt. This helps us manage our workload and maintain our core values and it's nice to know it helps."



**Targets and incentives are important staff performance measures, but the wrong incentives drive bad practice. ↓↓**

Collections staff and those working on behalf of creditors are key to the success of any debt collection strategy. However, they will have to meet certain targets in order to receive bonuses or demonstrate that they provide the level of service expected of them. If the targets and incentives allow people to benefit from poor practice – for example if a collector can receive higher pay by persuading people to make larger payments with no regard for how they went about doing this – people in debt will suffer. Instead, creditors should remember that they are responsible for the actions of everyone who acts on their behalf and their bonuses and incentives should promote best practice: →

### **In-house staff**

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All collections staff should be fully trained on all relevant legislation, regulatory requirements and industry codes of practice. These should be embedded as minimum requirements and standards. In addition, further detailed training should emphasise the need to focus on the circumstances of the individual person in debt. Remuneration should then be linked to a range of recovery and quality measures – such as the measures used by Equidebt that link pay to the quality of phone calls, and the length of time repayment plans are sustained. ↓

# Step 2

## Using external debt collection agencies

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Creditors are responsible for the behaviour of the debt collection agency which collects debts on their behalf. These agencies should not be used to protect a creditor's reputation by putting collections at arm's length.

Instead creditors should choose debt collection agencies by using a range of factors, including the number of complaints received about the agency, the number of performing repayment plans that agency has set up and the specialist services they offer to people whose circumstances make it hard for them to manage money.

Creditors should not move accounts between debt collection agencies when a payment plan is being maintained. Instead to promote stability creditors should use one agency – as does Provident Personal Credit which uses CK Edrupt, a firm of solicitors, to administer repayment arrangements on their behalf. If accounts are moved between agencies, creditors should make sure that everyone is aware of what is happening. The new debt collection agency should be given a full account history, and made aware of any offer of repayment and/or the involvement of an advice agency. In addition the person in debt and any advice agency acting on their behalf should be told which debt collection agency is now acting on the creditor's behalf and how payments can be made. →

## Selling debts to debt purchase companies

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Creditors are responsible for the behaviour of the firm to whom debts are sold. Debt-sellers should therefore choose to sell to the firm that offers the right price and provides the best service to people in debt.

For example, Capital One ensures they sell to purchasers who treat their customers to the standards they have set themselves, and they will not accept bids from purchasers who do not meet these standards. Capital One then carries out post sale audits to ensure the debt purchase company is adhering to their standards and all relevant legislation, regulatory and self-regulatory regimes. →

## Using private bailiffs

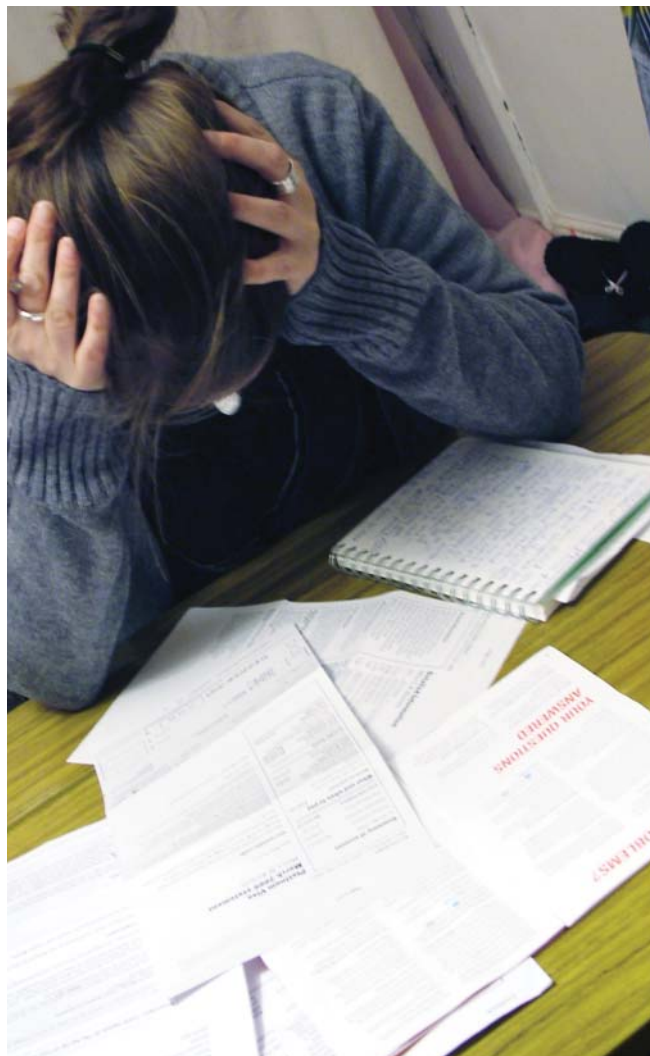
Creditors are responsible for the behaviour of private bailiffs acting on their behalf. However, the private bailiff industry remains unregulated and advice agencies continue to report cases of bad practice involving private bailiffs who enforce council tax arrears, child maintenance arrears, unpaid penalty charge notices and magistrate court fines.

Furthermore, bailiff action itself is stressful and costly for people in debt, and there is no mechanism by which a distress warrant can be suspended. We therefore believe that private bailiffs should be used only as a last resort.

Instead creditors should prioritise direct deductions from benefits, deductions of earnings orders and attachment of earnings orders over bailiff action. Or at least use in-house bailiffs who can focus on best practice instead of charging fees, like the enforcement officers employed by Wealden District Council.

If private bailiffs are used, creditors should consider the AdviceUK, Citizens Advice and Local Government Association council tax arrears collection protocol,<sup>2</sup> and in particular:

- develop processes to intercept cases that should not be sent to the bailiffs, for example when a council tax benefit claim is outstanding
- provide people with information that covers the charges the bailiffs can make and how they can make a complaint
- recognise that people may only engage once a bailiff has called and establish procedures to negotiate affordable, sustainable repayments and the return of distress warrants from the bailiff
- work with stakeholders – including local advice agencies – to use formal and informal complaints to monitor bailiff activity and address problems as soon as they arise. ●



2. For details of the council tax arrears collection protocol see:  
[citizensadvice.org.uk/council-tax-arrears.htm](https://citizensadvice.org.uk/council-tax-arrears.htm)

# Step 3

## Developing clear and encouraging communications

A number of advisers told us that they find Capital One particularly easy to deal with. Advisers told us that Capital One's letters clearly set out when and how the client should pay and when their case will be reviewed. Advisers also liked the letters Capital One sends out before a review. These clearly set out what will happen in any given situation, and the impact each option will have on the client's ability to obtain credit. Advisers also found it helpful that Capital One do not refer to 'formally accepting' offers or 'declining' or 'not accepting' offers. These phrases leave advisers and people in debt unsure if an offer has been accepted. Instead Capital One uses the phrase 'set up on a repayment plan' which advisers and people in debt interpret as an acceptance.

Capital One told us:



For us it is all about providing an excellent service to our customers for the entire life of the relationship. All our communications have to meet our brand standards. They are always in plain English and clearly set out why we are writing, what we expect the customer to do in response and how the customer can pay. We believe this is a common sense approach that encourages our customers to stay in touch and keep up payments."





**If people in debt can't see any benefit of engaging with their creditors, or if they don't know what's expected of them, things will go wrong. ↓**

People might avoid their creditors if they can't afford to pay what's been asked, or if they think there is nothing they can do to stop court action, or if they don't know what's expected of them. Similarly, advisers can find it hard to help people in debt if creditors do not communicate effectively at every stage of the debt recovery process, taking into account that: →

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### **Contacts should encourage engagement by offering help and support**

Most debts are just one of several or part of a much larger problem. The person might be receiving many calls and letters, all designed to pressure them to pay more than they can afford. Creditors should not add to this, but should take a more positive approach, explaining why they are being contacted, how the person will benefit from engaging, what they need to do next and where they can get help. Repeatedly telling them what will happen if they don't pay in full should be avoided; it will be interpreted as a threat and only serves to discourage them from engaging. ↓

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### **Decisions should be easy to understand**

Debt problems can be very complex. If people in debt don't understand what's happening or what they are expected to do, they may bury their head in the sand. To avoid this happening, creditors should use plain English and avoid using legal terminology wherever possible. Creditors should also be prepared to explain exactly how they have worked out how much is owed to them. For example, it is not enough to state that a benefit or tax credit overpayment has occurred, or present the person with a demand for child maintenance arrears without explaining how the arrears were calculated. ↓

# Step 3

## Responses to offers of repayment should be clear and encouraging

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If a person's expenditure falls within, or justifiably exceeds, objectively established guidelines – such as the common financial statement trigger figures mentioned earlier – creditors should accept their offer of repayment. To ensure that the person's debt actually reduces, charges and interest should be frozen, and creditors should not insist that the person takes out a consolidation loan. Acceptance letters should tell the customer how much they need to pay, when they need to pay it and how those payments can be made, such as Capital One's letters mentioned earlier.

Phrases like: 'your offer is unacceptable to us... but we will accept your payments' or 'your offer is declined at this stage' should be avoided. They are confusing and can lead people to think that their offer has been rejected or that they will receive preferential treatment if they pay more than they can afford. ➔

## Administering repayments

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Ideally, once an offer is accepted, the account should be administered by a department that is set up to deal with long term repayment arrangements – such as the Financial Solutions Unit at Santander Cards UK that administers repayments until accounts are repaid in full. ⬇

## If external agencies are used, information should be passed on

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Some creditors pass on debts without including full details of the account or informing the person in debt or their adviser. When this happens, the person receives calls and letters demanding payment from a new organisation. This can be distressing for the person in debt and is time-consuming for advisers, who have to reiterate their client's offer.

If external agencies are used to administer repayment arrangements, or debts are sold, creditors should pass on full details of the client's account, any repayment arrangements in place, any advice agencies that are helping the person and any other information that the original creditor holds about the person. Any advice agencies involved should be informed of the new organisation's involvement. ➔

## Reviews

It is only reasonable that a person in debt should be willing to review their offer. However, asking people in debt to review their offer every one, two or three months wastes advisers' and creditors' time. It is unlikely that the person's situation will have improved in such a short time period; and carrying out a review could involve the adviser re-interviewing the person and sending even more letters to their creditors – all of which costs money and takes time. Instead creditors should only expect reviews to be carried out annually, or when a person's situation changes for better or worse, as M&S Money does.

Creditors should not insist that an advice agency carries out the review. If a person has maintained payments and is willing and able to engage with their creditors, they should be allowed to submit their own revised offer.

Furthermore, creditors should not expect the person's offer to increase just because time has passed. Or that they can press for higher payments if the person is no longer represented by an advice agency. Instead creditors should approach reviews in a pragmatic way: if the person needs extra help, they should be given time to seek it; if the person is able to submit their own offer, they should be allowed to do so. No matter who submits the revised offer, creditors should still use an objective way of assessing how much the person can pay – like the CFS. ●



Library photos posed by models: John Birdsall/Press Association

# Step 4

## Providing information and support

A number of advisers told us that they found Capital One's Speciality Support Unit particularly helpful. Whenever they had a problem, they could contact a well trained, knowledgeable member of staff who could answer their questions and take action if need be. This helped them resolve problems quickly so that they could move on and help other clients.

Capital One told us:



Our Speciality Support Unit is split into three sections: one to help third party debt management agencies; one to help people in financial difficulties; and another to help people in severe hardship, like those with mental or physical health problems, the bereaved, the terminally ill or those who have had to give up work to care for someone. Dividing the work up in this way means we can continue to provide an excellent service to all our customers, no matter what problems they are facing or how they've chosen to deal with their financial problems."



**Once an arrangement has been set up, people in debt and their advisers will still need information and support from creditors. ↓**

Repaying debts over long periods of time can seem like an endless task for people in debt. Furthermore, while people might regain control of their finances, or even see their financial situation improve from time to time, things can still go wrong. For example, they may gain and lose employment or a relationship might start and then end. To help people cope, creditors need to make the repayment process easy and rewarding, and they need to be available when problems arise: →

### **Making payments should be cheap and easy**

Creditors should offer a range of free and easy-to-access payment methods. Creditors should not insist on direct debits, to avoid any excessive and erroneous payments being requested. The direct debit guarantee assures consumers a full refund if errors are made. But it is of little help to those on very low incomes who could be left with no money if they can't resolve matters instantly. Furthermore, some people will prefer to retain control over payments and others will have accounts that do not allow for direct debit payment. Instead, creditors should provide people with standing order details or free-to-use payment cards that are accepted in a wide range of outlets across the UK, such as newsagents and post offices. ↓

# Step 4

## Access to account information

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If customers can see their debt going down, it will encourage them to keep up payments. Creditors should keep the cost of debt down by freezing charges and interest and provide people with easy access to their account balance, as well as any statutory notices or statements. If there are any discrepancies or queries, the person or their adviser should be able to contact a member of staff who is sufficiently empowered to take action and resolve any problems. ↓

## Incentives to maintaining payment

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Incentives, such as Wessex Water's Restart scheme, can also help people keep up payment. On the Restart scheme a person's payments in year one are matched by Wessex Water. Then, if payments are maintained at the end of year two the rest of the arrears are written off. ↓

## Support for people in debt

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People in debt might occasionally miss payments for a range of reasons – a washing machine might need repairing or benefits may have been stopped with little or no warning. Creditors should take a pragmatic approach to such occasional payment problems and look at each case individually, and do what they can to help their customer recover. For example, they might allow the person to make up payments later, or miss a payment, or even extend the repayment period. →

## Support for advice agencies

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Advisers are generally more knowledgeable about debt related issues than their clients. When they contact a person's creditors, they are usually trying to resolve a complex problem. If advisers have to use public phone lines, or write to mainstream collections teams, it can waste their time and that of the creditor, if the people they reach simply can't help. Having dedicated contact points that are staffed by people who can enact any and all of the creditor's policies helps advisers resolve matters more quickly. Such contact points should be available to all advice providers, as with the Advice Agency Support Unit at Wescot Credit Services. →







Library photos posed by models. John Birdsell/Press Association

## **If external agencies are used, information should be passed on**

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Some creditors pass or sell on debts without including full details of the account or informing the person in debt or their adviser. When this happens, the person receives calls and letters demanding payment from a new organisation. This can be distressing for the person in debt and is time-consuming for advisers, who have to reiterate their client's offer.

If external agencies are used to administer repayment arrangements, or debts are sold, creditors should pass on full details of the client's account, any repayment arrangements in place, any advice agencies that are helping the person and any other information that the original creditor holds about the person. Any advice agencies involved should be informed of the new organisation's involvement. ●

# Step 5

## Being willing and able to maintain and develop best practice

Provident Personal Credit is the largest provider of home credit in the UK. Company agents call on customers at their home to issue loans and collect weekly payments. In the past when advisers had been instructed by Provident customers to act on their behalf, they found it difficult to work with staff in Provident's local offices. For advisers, challenges could also arise if an agent continued to call at a customer's home while they were trying to or had set up a revised repayment plan for that client.

Provident told us:



Following discussions with the advice sector in which this issue was highlighted, we realised that we needed to review the process of how we dealt with a customer who had instructed a free adviser to act for them and to find a way to take customers' and advisers' viewpoints into consideration alongside our own needs. We decided to bring these accounts into a central department where it would be much easier to build on existing staff expertise and knowledge. This change enabled us to improve all aspects of relations with advisers and customers in difficulty."



**Information should be gathered from a range of sources and used to understand customers and their advisers, as well as creditors' own performance ↓**

In theory, a collection strategy might appear to achieve best practice and help people in debt regain control of their finances. But in practice there may be unintended consequences that have a detrimental impact on people in debt. For example, creditors might believe they are doing the right thing by telling someone that they will find it hard to obtain credit in the future if they cannot repay what they owe within a set time frame. But in practice, people in debt read this as 'pay more or we will blacklist you' and feel pressured to pay more than they can afford. Unintended problems like this can be identified and addressed if creditors gather feedback and use it effectively. In particular creditors should use: →

### **Behavioural data and management information**

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Creditors can help people avoid the worst effects of unmanageable personal debt by intervening early. Creditors can identify people who face financial difficulties by monitoring income, payment history and spending habits. For example, credit card providers could intervene early if a person starts using their credit card to pay for council tax or other everyday essentials. Other creditors could intervene as soon as payments are missed, in full or in part.

Creditors should also use management information about debt repayment to understand if their collections practice is working as expected. For example, if a large percentage of repayments fail, creditors should find out why and adjust their collections practice accordingly – say by ensuring they are using up to date CFS trigger figures to assess offers of repayment. If deductions from earnings orders or attachment of earnings orders are being used, repayments are less likely to fail. Creditors who use these collections methods – such as the Child Support Agency and local authority council tax departments – should also gather information from other sources, such as complaints and feedback from advisers and people in debt. ↓

# Step 5

## Complaints and feedback from people in debt

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People in debt are ideally placed to comment on the performance of a debt collection practice. Creditors should listen to complaints and address problems quickly. Furthermore, if a creditor is committed to doing the right thing they should value feedback from people in debt. Creditors should carry out satisfaction surveys with people in debt. These people are still residents, tax payers and customers and potential future customers and their views are still important. ➔



## Advice sector input

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Debt advisers are extremely well placed to comment on creditors' collections practices. Advisers regularly deal with collections staff and they see the impact collections practices have on their clients on a daily basis. Creditors can engage with and learn from advisers in a number of ways:

- By attending and participating in money advice groups which are organised by the advice sector and take place across England and Wales.
- By joining a regional discussion forum of the Money Advice Liaison Group (MALG) which was set up in 1987 to promote better understanding between creditors and advisers.
- By regular, direct liaison with the free-to-client debt advice sector, which gathers detailed evidence of the problems people in debt experience.

A number of creditors have already worked very closely with the advice sector to understand and improve their debt collections practices. Some changed the wording of a letter; some set up dedicated helplines and some set up whole new teams specifically to help advice providers resolve problems more quickly. ⬇

## Information exchanges with other creditors

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It should also be possible for creditors to share best practice with each other, through trade associations or best practice forums. For example Wealden District Council is part of the Local Authority Civil Enforcement forum. This is an email forum where local authorities can share good practice. ➔



## Using the information gathered

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Creditors have to use the information they gather. But they will only be willing and able to use this information if everyone is committed to the organisational culture of doing the right thing. Otherwise senior members of staff – those who can make change – will not be involved in the monitoring process and nothing will happen.

Northern Rock took this approach to their recent review of unsecured debt collection processes. The review was driven by and included members of the executive committee, and sought input from a number of sources – including the debt advice sector with which Northern Rock now regularly engages via their dedicated Debt Advice Manager.

This high level executive involvement and debt advice sector input enabled Northern Rock to make substantial positive changes in a relatively short time. We hope other creditors follow the Northern Rock approach of listening and taking action after reading this report. ●



# What about people who won't pay?

The advice sector helps people exercise their rights and understand their responsibilities. Sometimes advisers might challenge a creditor's ability to recover a debt, for example, when a benefit or tax credit overpayment is caused by official error and the person could not have reasonably known they had been over paid, or if a consumer credit agreement was not completed correctly. But advisers will not help people avoid their responsibilities when they can and should pay.

We are aware, however, that creditors will encounter people who simply will not pay. But it is extremely difficult, if not impossible, to tell these people apart from people who have problems managing their money.

For example, there are people who won't pay because they can't pay what their creditors are asking. There are people whose circumstances make it hard for them to deal with creditors, for example, because of a mental or physical health problem or a previous bad experience. When these people are contacted, by phone or letter, they may well not be able to cope. As a result they may not respond or simply put the phone down.

How can these people be distinguished from those who could pay but won't? There is no easy answer. However, if creditors take a flexible and pragmatic approach, one that rewards engagement, gives incentives to repayment and addresses the person's needs over time, those who could pay but won't pay should be easier to identify and deal with.





# Do you want to be part of the conversation?

This report has used advisers' experiences and examples of current best practice to set out the steps we believe all creditors should take to achieve best practice in debt collection. We now want to start a conversation with all creditors about how we can improve debt collection practices across the board. If you want to be part of this conversation, if you would like to help us form a best practice working party, or meet with us to discuss your collections practice, or if you want to tell us about your organisation's good practice, please contact us:

**By post:**

Alex MacDermott  
Creditor Liaison Policy Officer  
Citizens Advice  
Myddelton House  
115–123 Pentonville Road  
London N1 9LZ

**Email:** alex.macdermott@citizensadvice.org.uk

**Tel:** 020 7833 7191

## Appendix 1

This report would not have been possible without the help of those advisers who completed our online survey and those creditors who took part in detailed interviews.

We would like to thank all of these people for their help. In particular we would like to thank those creditors who contributed to this report, namely:

**Allied International Credit**  
**Cabot Financial**  
**Capital One**  
**Equidebt**  
**FC Collections**  
**Greenwich Council's neighbourhood services**  
**M&S Money**  
**Northern Rock**  
**Provident Personal Credit**  
**Santander Cards UK**  
**Sovereign Housing Association**  
**Wealden District Council**  
**Wescot Credit Services**  
**Wessex Water**

*This report was produced as part of an independent project run by Citizens Advice and funded by the Royal Bank of Scotland group to identify systemic issues between the financial services industry and the free independent advice sector.*

Written by **Alex MacDermott**

**Citizens Advice**

Myddelton House  
115–123 Pentonville Road  
London N1 9LZ

Volunteer hotline: 08451 264 264

Telephone: 020 7833 2181

Fax: 020 7833 4371

**[www.citizensadvice.org.uk](http://www.citizensadvice.org.uk)**

**[www.adviceguide.org.uk](http://www.adviceguide.org.uk)**

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